# Andean Report by Javier Almario

## Austerity for Colombia

*The goverment, backed by the creditor banks, argues that the people are consuming too much.*

The Virgilio Barco government is enforcing all the conditions of starvation dictated by the international creditor banks, in exchange for a measly $1.7 billion in credit. In fact, as soon as President Barco decreed a minimum wage increase *below* the inflation rate, Finance Minister Luis Fernando Alarcón Mantilla was permitted to announce that the Colombian government had just reached a deal with the banks for the $1.7 billion.

An ecstatic President Barco claimed that the loan was "recognition" by the international banks that, "in the midst of the difficulties Latin America is suffering, our economy presents an exceptionally good situation."

During tripartite discussions with the labor unions and the business community in the National Wage Council, Minister Alarcón had furiously argued that the minimum wage had to remain below the inflation index, because government commitments to the International Monetary Fund (IMF) included a 1989 inflation rate of no more than 23%.

What he did not mention, was the fact that in early 1988, he had set an inflation estimate for the year of only 22%, but by December he was forced to increase that estimate to an embarrassing 27%, violating the goal agreed upon with the IMF. Even that 27% fell below the final 1988 inflation figure of 28.2%, the highest of the past 10 years.

Labor spokesmen argued back that wage increases were not inflationary, and had to include compensation for the full increase in costs of living during 1988.

Willing to compromise, the business community proposed an increase equal to that of the inflation rate, but President Barco, determined to keep the bankers happy, decreed a wage hike of only 27%. With this decree, issued after the tripartite talks collapsed in failure, the traditional yearly minimum wage hike was kept below the inflation rate for the first time in 15 years.

Even worse, the government only granted a 25% increase (more than three points below inflation) for the 1 million workers of the state sector, nearly 20% of the Colombian labor force. At the same time, the Barco government authorized increases of 24% in fuel prices, 28.2% in tax hikes, 27% in public service costs, 34% in telephone rates, and 28% in medications. Adding insult to injury, the World Bank is currently threatening to suspend credit disbursements to the electricity sector, because the state electrical company, according to the financial institution, has still not raised its rates enough.

The government's wage-gouging policy is but one aspect of its commitment to brutally reduce Colombians' consumption levels as the condition for receiving further bank credits. The government had already limited the use of credit cards, increased credit card interest rates, and imposed an initial quota that forces credit card users to pay 30% of the debt contracted in the first month. Said measures were taken explicitly for the purpose of "reducing consumption," according to Finance Minister Alarcón Mantilla. Thanks to these and similar monetarist measures, consumer sales in December 1988 fell 30%.

The ill-gotten reward for the Barco government was the much-pursued $1.7 billion private bank credit, whose first disbursement will occur in April 1989 (if the bankers do not suddenly change their minds), and another $1.4 billion from the multilateral banking institutions (World Bank and Inter-American Development Bank), in addition to a three-month moratorium granted by the international banks on some $300 million in capital.

But slashing consumption is not the only commitment the Barco government has made with the banks. It has further pledged to offer greater concessions to foreign investors. One of these is the just-decreed reduction in taxes on foreign companies by a whopping 25%. Congress has also just approved special legislation to permit foreign investors greater access to national companies, and especially, Colombian banks. Further, the Barco government has committed itself to buying up its own foreign debt on the "junk bond" markets, and to dramatically reducing its fiscal deficit.

And with it all, President Barco continues to claim that his administration is combatting "absolute poverty." To back up his fairy tale, the National Administrative Department of Statistics (DANE) has fabricated a new "market basket" index (upon which cost-of-living estimates are based), which reduces the factor of food consumption! In the old "market basket," food represented a full 48% of consumption, but in the new index, it only represents 34.5%. Through this strategem, worthy of an IMF medal, this year's food shortages will cause no major increases in DANE's inflation estimates.